

**CITY OF WATERVILLE,
MAINE**

FINANCIAL REPORT

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Waterville, Maine
Waterville, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the schedule of funding progress on Page 43, the schedule of proportionate share of the net pension liability and related ratios on page 44, and the schedule of employer contributions on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016, on our consideration of the City of Waterville, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Waterville, Maine's internal control over financial reporting and compliance.

Nicholson, Richard & Company

Waterville, Maine
December 27, 2016

MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the City of Waterville, Maine (the City), we offer this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

- Total net position for the year ended June 30, 2016 of \$30,927,048. A portion of that amount, \$23,526,810, is a net investment in capital assets while the next largest portion, \$3,930,141 is unrestricted. Total net position for the year ended June 30, 2015, was \$28,991,307. A portion of that amount, \$21,483,500, was a net investment in capital assets while the next largest portion, \$3,947,313 was unrestricted.
- Net position increased by \$1,935,742 for the year ended June 30, 2016. The net position increase for the year ended June 30, 2015, was \$2,887,827.
- The governmental funds reported combined fund balances of \$11,032,486, a decrease of \$1,415,183 from the prior year. The decrease in fund balance is attributed primarily to a decrease in the Capital Projects fund balance of \$1,350,909 related to bond proceeds for construction projects received in the prior year that were spent in the current year.
- As of June 30, 2016, unassigned fund balance for the General Fund was \$4,941,983 or 13% of the total general fund expenditures. The City's policy establishes a goal to maintain an unassigned fund balance of at least 12%.
- Bonds payable decreased to \$23,748,954 as compared to \$25,638,008 from the prior year as a result of regularly scheduled principal repayments of \$1,889,054.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The City's Basic Financial Report has three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. All of the funds of the City are reported using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting is similar to the accounting method used by non-public businesses, in that revenues and expenditures are recorded in the current year regardless of when the revenue is collected or paid out.

Government-Wide Financial Statements

- Government-wide financial statements report information on all of the non-fiduciary activities of the City's Governmental activities which are normally supported by taxes and intergovernmental revenues.
- The City's financial statements are comprised of a series of statements such as the statement of net position and the statement of activities. These statements provide an overview of the activities of the government as a whole.
- The statement of net position provides a picture of the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources (including infrastructure). This is called *net position*. The statement of activities provides a look at how the net position has changed from the prior year to the current year. Increases or decreases in net position can show whether the City is improving or deteriorating. Other factors such as changes in the City's property tax base and the condition of the roads also need to be considered to assess the overall health of the City.

Fund Financial Statements

- The fund financial statements provide details of the City's most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. Examples of funds within the City's financial statements follow.
- *General Fund* – This is the primary operating fund for the City. Most of the City's basic services are reported in the general fund. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- *Other Governmental Funds* – This is the remaining special revenue funds, capital projects funds and permanent funds that do not meet the criteria for reporting as a major fund.
- *Fiduciary Funds* – These funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. The City is the trustee, or *fiduciary*, for Trust Funds that are set up primarily as scholarships or funds for people in need. These assets, because of a trust arrangement, can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-42 of this document.

THE CITY AS A WHOLE

The following information is a condensed version of the statement of net position.

	Governmental Activities		Library	
	2016	2015	2016	2015
Current and other assets	\$ 14,830,839	\$ 18,630,013	\$ 1,378,587	\$ 1,517,320
Capital assets, net	46,205,138	44,675,156		
Total assets	<u>\$ 61,035,977</u>	<u>\$ 63,305,169</u>	<u>\$ 1,378,587</u>	<u>\$ 1,517,320</u>
Long-term debt outstanding	\$ 27,322,272	\$ 28,434,648		
Other liabilities	2,786,657	5,879,215	\$ 4,380	\$ 1,072
Total liabilities	<u>30,108,929</u>	<u>34,313,863</u>	<u>4,380</u>	<u>1,072</u>
Net position:				
Invested in:				
Capital assets	23,526,810	21,483,500		
Restricted	3,470,097	3,560,493		
Unrestricted	3,930,141	3,947,313	1,374,207	1,516,248
Total net position	<u>\$ 30,927,048</u>	<u>\$ 28,991,306</u>	<u>\$ 1,374,207</u>	<u>\$ 1,516,248</u>

Current and other assets are substantially all comprised of cash and investments. Capital assets, which include property, plant, equipment, and infrastructure, are generally defined by the City as assets with an initial, individual cost of greater than or equal to \$5,000 (five thousand dollars) and an estimated useful life in excess of one year. Capital assets increased in 2016 as significant investment in capital assets at the Airport and various road repair projects exceeded depreciation. The governmental activities increase in total net position is due primarily to revenues raised being consistent with the budget, while expenditures were kept below anticipated budget amounts. By far the largest portion of the City's net position reflects its investment in capital assets less any related debt to acquire those assets still outstanding. There were no new bonds issued in the current year. The City reduced its long-term debt outstanding by approximately 7%. Detail of the activity of capital assets and long-term debt can be found in the notes to the financial statements.

The following schedule, the statement of activities, focuses on changes in net position of the City's governmental activities.

	Governmental Activities		Library	
	2016	2015	2016	2015
Program Revenues:				
Charges for services	\$ 3,786,503	\$ 3,596,719	\$ 22,465	\$ 65,968
Operating grants and contributions	16,760,163	17,112,794	473,218	451,622
Capital grants and contributions	2,190,390	3,313,312		
	<u>22,737,056</u>	<u>24,022,825</u>	<u>495,683</u>	<u>517,590</u>
General Revenues:				
Property and other taxes	19,492,855	19,107,678		
Licenses, permits and fees	285,433	264,301		
Grants and contributions not restricted to specific programs	1,770,372	1,632,236		
Investment earnings	59,263	151,128	16,439	(6,164)
Unclassified	342,442	238,378		
	<u>21,950,365</u>	<u>21,393,721</u>	<u>16,439</u>	<u>(6,164)</u>
Total Revenues	<u>44,687,421</u>	<u>45,416,546</u>	<u>512,122</u>	<u>511,426</u>
Program Expenses:				
General government	3,289,755	3,540,568		
Public works	3,927,981	4,152,123		
Public safety	6,999,098	6,405,582		
Parks, recreation and culture	596,437	571,014		
Health and welfare	249,029	261,341		
Education	25,424,538	25,493,936		
Program expenses	83,654	126,822		
TIF projects	735,639	737,275		
Unclassified	756,334	833,646		
Capital outlay	256,833	44,276		
Interest on debt	432,381	362,136		
Library expenses			654,163	723,713
Total Expenses	<u>42,751,679</u>	<u>42,528,719</u>	<u>654,163</u>	<u>723,713</u>
Change in Net Position	1,935,742	2,887,827	(142,041)	(212,287)
Net Position, Beginning of Year	28,991,306	26,103,479	1,516,248	1,728,535
Net Position, End of Year	\$ 30,927,048	\$ 28,991,306	\$ 1,374,207	\$ 1,516,248

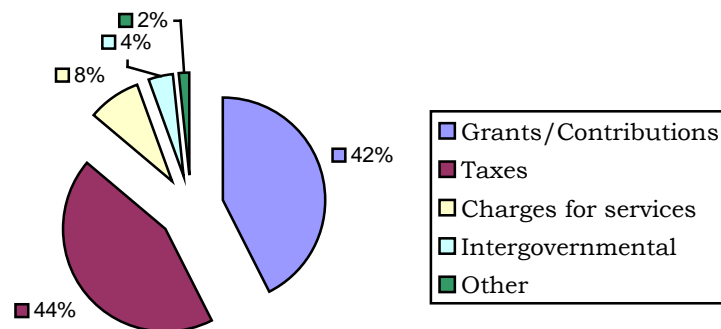
The cost of all governmental activities this year was \$42,751,679, which represents an increase of \$222,960 from prior year. Of this amount, Waterville taxpayers financed \$19,492,855 through property, personal and excise taxes. Municipal and educational departments have continued to aggressively pursue grant revenue to cover programs and services and to help reduce the tax burden to Waterville residents.

Special revenue fund program expenses are expenditures from City and School funds such as the City recreation and airport funds and school programs such as the lunch program and other specifically grant-funded programs. These programs are found in the “All Other Governmental Funds” section of this report.

Capital outlay represents the net amount paid for items that are capital in nature and major repairs. Interest on debt indicates the debt service amounts paid from the City and School general fund and the TIF fund.

Governmental Activities

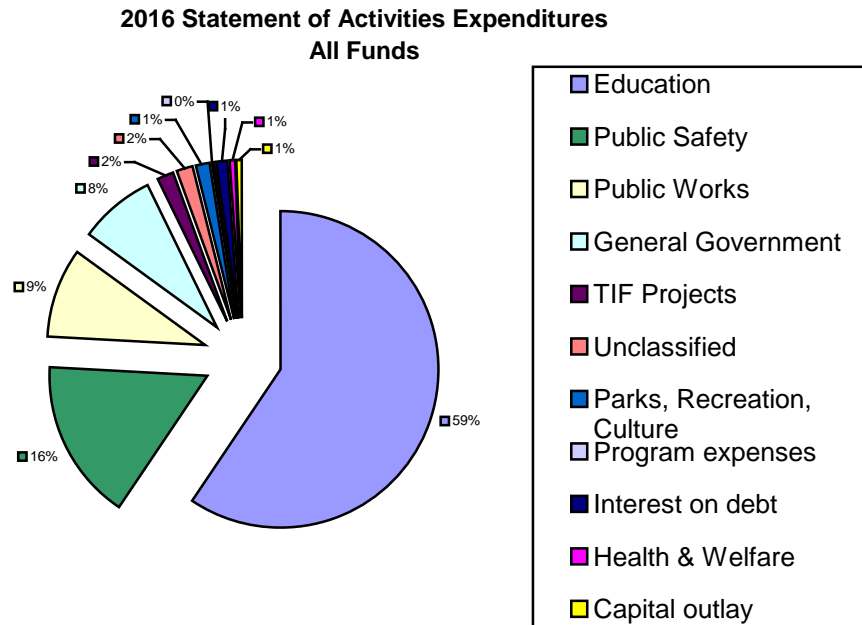
**2016 Statement of Activities Revenues
All Funds**



Grants/Contributions	Includes operating and capital grants and contributions
Taxes	Includes real property, personal property and excise taxes
Charges for service	Includes revenue from the various departments for services
Intergovernmental	Includes State revenue sharing, homestead, veterans and welfare reimbursement, State road grant
Other	Includes license and permit revenue, franchise fees and fines, miscellaneous revenue, and investment earnings from general fund investments

As the revenue chart shows, the major sources of revenue for the City of Waterville are operating and capital grants and contributions, taxes, charges for services and intergovernmental revenue.

Governmental Activities – Continued



As the above chart indicates, education is the department with the largest expenditure, with public safety and public works following, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total budgeted revenues were \$36,888,153, and actual revenues were \$37,535,819, resulting in a positive variance of \$647,666. Total budgeted expenditures were \$38,042,153 and actual expenditures were \$37,529,627, resulting in a positive variance of \$512,526. For the year, the General Fund had an increase in fund balance of \$6,192.

The City continues to meet its responsibilities for sound financial management. This year the City meets the fund balance percentage range set by the council of 12%. Carefully monitoring expenditures, finding non-tax sources of revenue, and setting a debt repayment ceiling have all helped in establishing a favorable fund balance. Having the fund balance at an appropriate level is important when the City goes to bond. The residents of the City can be proud of its municipal and school personnel, who have worked together to continue to meet these financial goals.

ECONOMIC FACTORS AND THE CITY'S BUDGET

The valuation for the City decreased by approximately \$1.8 million or .4% in fiscal year ended June 30, 2016. Residential valuation increased by approximately \$3.1 million or .6% while Personal Property decreased approximately \$4.9 million or 7.6%.

The unemployment rate for the City at fiscal year-end was an estimated 4.6% which was down from 5.3% from the prior year. The rate is above the estimated State average of 3.7% and below the estimated National rate of 5.1%. These figures are from the Maine Center for Workforce Research and Information website.

The 2016/2017 budget adopted by the City Council resulted in a \$5 decrease in the mill rate from the 2015/2016 rate of 27.8 mills (22.8 mills). For the 2015/2016 budget year, which is the year this audit covers, the mill rate was 27.8 mills.

LD 1, adopted in 2005, imposes a property tax levy limit which is based on a combination of the State's average personal income growth factor and the property growth factor of each individual municipality. The budget adopted by the City Council was within the limits established by the law.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the City's *Finance Director, 1 Common Street, Waterville, ME 04901.*

Statement of Net Position**June 30, 2016**

	Primary Government Governmental Activities	Component Unit Library
ASSETS		
Cash and cash equivalents	\$ 2,229,180	\$ 9,435
Investments	9,808,239	1,360,366
Receivables:		
Taxes receivable	1,127,970	
Tax liens	299,143	
Other receivables	679,594	8,786
Intergovernmental	495,788	
Inventory	190,925	
Capital assets, net of accumulated depreciation	46,205,138	
Total Assets	61,035,977	1,378,587
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	1,486,695	
Total Deferred Outflows of Resources Related to Pensions	1,486,695	
LIABILITIES		
Accounts payable	790,616	4,380
Accrued wages and benefits payable	1,360,406	
Accrued compensated absences	209,569	
Unearned revenue	36,196	
Deposits	733,281	
Taxes received in advance	14,681	
Due to agency fund	36,344	
Accrued interest	188,458	
Noncurrent liabilities:		
Due within one year	2,301,938	
Due in more than one year	24,033,633	
Other post employment benefits liability	539,524	
Accrued compensated absences	237,608	
Total Liabilities	30,482,254	4,380
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	1,113,370	
Total Deferred Inflows of Resources Related to Pensions	1,113,370	
NET POSITION		
Net investment in capital assets	23,526,810	
Restricted for:		
Nonexpendable for inventory	64,181	
Nonexpendable trust principal	1,310,897	
Expendable for trust designated uses	974,181	
Special revenue funds	868,727	
Work in Process Capital Projects	252,111	
Unrestricted	3,930,141	1,374,207
Total Net Position	\$ 30,927,048	\$ 1,374,207

See independent auditor's report.

The accompanying notes are an integral part of these financial statements.

Statement of Activities**Year Ended June 30, 2016**

					Net (Expense) Revenue and Changes in Net Position	
		Program Revenues			Primary	Component
		Charges for	Operating	Capital	Governmental	Unit
Functions/Programs	Expenses	Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Library
Primary Government:						
Governmental Activities:						
Mayor	\$ 22,928				\$ (22,928)	
Administration	1,630,621				(1,630,621)	
Assessor	172,360				(172,360)	
Information services	412,282	\$ 46,845			(365,437)	
Finance department	368,191	35,227			(332,964)	
City clerk	190,778	36,860			(153,918)	
Planning department	47,727	1,400			(46,327)	
Economic development	444,868		\$ 139,906		(304,962)	
Public works	3,927,981	679,298			(3,248,683)	
Parks, recreation and culture	596,437	142,448	33,926		(420,063)	
Police	3,462,370	132,589	63,357		(3,266,424)	
Communication center	561,856	135,387			(426,469)	
Fire	2,232,805	43,657	1,200		(2,187,948)	
Code enforcement	85,021				(85,021)	
Health and welfare	249,029		54,287		(194,742)	
Airport	657,046	328,493		\$ 466,074	137,521	
Unclassified	756,334		212,551		(543,783)	
Program expenses	83,654				(83,654)	
TIF projects	735,639				(735,639)	
Education	25,424,538	2,204,299	16,254,936		(6,965,303)	
Capital outlay recaptured	256,833			1,724,316	1,467,483	
Interest on debt	432,381				(432,381)	
Total Governmental Activities	<u>\$ 42,751,679</u>	<u>\$ 3,786,503</u>	<u>\$ 16,760,163</u>	<u>\$ 2,190,390</u>	(20,014,623)	
Component Unit:						
Library	<u>\$ 654,163</u>	<u>\$ 22,465</u>	<u>\$ 473,218</u>			<u>\$ (158,480)</u>
General revenues:						
Property taxes					17,630,148	
Excise taxes					1,862,707	
Licenses and permits					103,998	
Franchise fees					169,936	
Fees and fines					11,499	
Grants and contributions not restricted to specific programs:						
State revenue sharing					1,207,780	
Homestead exemption					310,727	
BETE reimbursement					251,865	
Investment earnings					59,263	16,439
Unclassified					246,090	
Release of funds reserved for landfill closure					96,352	
Total general revenues					<u>21,950,365</u>	<u>16,439</u>
Change in net position					1,935,742	(142,041)
Net position - beginning of year					<u>28,991,306</u>	<u>1,516,248</u>
Net position - end of year					\$ 30,927,048	\$ 1,374,207

See independent auditor's report.

The accompanying notes are an integral part of these financial statements.

Balance Sheet - Governmental Funds**June 30, 2016**

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash	\$ 1,863,775		\$ 365,405	\$ 2,229,180
Investments	7,840,638		1,967,601	9,808,239
Receivables:				
Taxes receivable	1,127,970			1,127,970
Tax liens	299,143			299,143
Other receivables	34,449	\$ 612,413	32,732	679,594
Intergovernmental	63,333	4,026	428,429	495,788
Interfund loans receivable	1,160,300	2,549,810	683,605	4,393,715
Inventory	126,744		64,181	190,925
Total Assets	<u>\$ 12,516,352</u>	<u>\$ 3,166,249</u>	<u>\$ 3,541,953</u>	<u>\$ 19,224,554</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 263,622	\$ 364,204	\$ 162,790	\$ 790,616
Accrued wages and benefits payable	1,358,448		1,958	1,360,406
Accrued compensated absences	207,524		2,045	209,569
Unearned revenue	16,478	6,216	13,502	36,196
Deposits	733,281			733,281
Taxes received in advance	14,681			14,681
Due to agency fund	36,344			36,344
Interfund loans payable	3,097,670	1,033,884	262,161	4,393,715
Total Liabilities	<u>5,728,048</u>	<u>1,404,304</u>	<u>442,456</u>	<u>7,574,808</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue - property taxes	617,260			617,260
Fund Balances (Deficits):				
Nonspendable for inventory	126,744		64,181	190,925
Nonspendable for trusts			1,310,897	1,310,897
Restricted for trusts			974,181	974,181
Restricted for special revenue funds			868,727	868,727
Restricted for capital projects		1,504,932		1,504,932
General Fund - assigned for subsequent year budget	600,000			600,000
General Fund - unassigned	4,941,983			4,941,983
General Fund - assigned for subsequent year school budget	498,056			498,056
General Fund - restricted for education	4,261			4,261
Special Revenues - unassigned			(118,489)	(118,489)
Capital Projects - committed		859,121		859,121
Capital Projects - unassigned		(602,108)		(602,108)
Total Fund Balances	<u>6,171,044</u>	<u>1,761,945</u>	<u>3,099,497</u>	<u>11,032,486</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 12,516,352</u>	<u>\$ 3,166,249</u>	<u>\$ 3,541,953</u>	
Reconciliation of Fund Balances to Net Position:				
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				46,205,138
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				617,260
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.				
Accrued compensated absences				(237,608)
Accrued interest				(188,458)
Capital leases payable				(182,195)
Other post employment benefits liability				(539,524)
Net pension liability, including related deferred outflows and inflows of resources				(1,800,145)
Bonds payable				(23,979,906)
Net Position of Governmental Activities				<u>\$ 30,927,048</u>

See independent auditor's report.

The accompanying notes are an integral part of these financial statements.

**Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds**
Year Ended June 30, 2016

	General	Capital Projects	Other Governmental Funds	Total
Revenues:				
Taxes	\$ 19,576,138			\$ 19,576,138
Licenses and permits	103,998			103,998
Intergovernmental	14,735,328	\$2,063,678	\$ 3,436,071	20,235,077
Tuition and other charges - Education	2,010,012		194,287	2,204,299
Charges for services - City	1,257,186		328,493	1,585,679
Fees and fines	11,499			11,499
Unclassified	432,366	126,712	339,321	898,399
Investment earnings	88,386		(29,123)	59,263
Total Revenues	<u>38,214,913</u>	<u>2,190,390</u>	<u>4,269,049</u>	<u>44,674,352</u>
Expenditures:				
Current:				
Mayor	22,928			22,928
Administration	1,459,374			1,459,374
Assessor	167,318			167,318
Information services	405,786			405,786
Finance department	368,191			368,191
City clerk	188,576			188,576
Planning department	47,727			47,727
Economic development	272,631			272,631
Public works	3,534,855			3,534,855
Parks, recreation and culture	553,907			553,907
Police	3,063,699		38,696	3,102,395
Communication center	561,856			561,856
Fire	2,052,826			2,052,826
Code enforcement	85,021			85,021
Health and welfare	249,029			249,029
Airport			428,097	428,097
Education	21,899,615		3,656,842	25,556,457
County tax	733,813			733,813
Unclassified	22,521		255,891	278,412
TIF projects			735,639	735,639
Capital outlay		3,865,090		3,865,090
Debt service (excluding education portion)	1,419,607			1,419,607
Total Expenditures	<u>37,109,280</u>	<u>3,865,090</u>	<u>5,115,165</u>	<u>46,089,535</u>
Deficiency of Revenues Over Expenditures	<u>1,105,633</u>	<u>(1,674,700)</u>	<u>(846,116)</u>	<u>(1,415,183)</u>
Other Financing Sources (Uses):				
Transfers in	340,906	420,174	1,431,347	2,192,427
Transfers out	(1,440,347)	(96,383)	(655,697)	(2,192,427)
Total Other Financing Sources (Uses)	<u>(1,099,441)</u>	<u>323,791</u>	<u>775,650</u>	
Net Change in Fund Balances	6,192	(1,350,909)	(70,466)	(1,415,183)
Fund Balances, Beginning of Year	<u>6,164,852</u>	<u>3,112,854</u>	<u>3,169,963</u>	<u>12,447,669</u>
Fund Balances, End of Year	<u>\$ 6,171,044</u>	<u>\$ 1,761,945</u>	<u>\$ 3,099,497</u>	<u>\$ 11,032,486</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ (1,415,183)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which the cost of assets (\$4,010,949)

exceeded depreciation expense (\$2,480,966) in the current period. 1,529,983

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This represents the decrease in accrued compensated absences (\$7,727), the increase in OPEB liability (\$68,607), the decrease in accrued interest (\$12,678) and net decrease in net pension liability including deferred outflows and inflows (\$38,307). (9,895)

Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position (\$150,371). Repayment of capital lease principal is an expenditure in the the governmental funds, but the repayment reduces long-term liabilities in the statement of net position (\$67,537). (82,834)

Landfill closure expenses in the statement of activities that are not current uses of financial resources are not reported as expenditures in the funds. 96,352

Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes) differ between the two statements. This amount represents the net change in unavailable revenue. (83,283)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,900,602

Change in Net Position of Governmental Activities \$ 1,935,742

**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Budgetary Basis) and Actual - General Fund**

Year Ended June 30, 2016

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 19,060,427	\$ 19,060,427	\$ 19,576,138	\$ 515,711
Licenses and permits	185,800	185,800	103,998	(81,802)
Intergovernmental	13,619,381	13,619,381	13,715,328	95,947
Tuition and other charges for services - Education	1,849,220	1,849,220	2,010,012	160,792
Charges for services - City	1,261,750	1,261,750	1,257,186	(4,564)
Fees and fines	5,700	5,700	11,499	5,799
Unclassified	355,525	355,525	432,366	76,841
Investment earnings	40,000	40,000	88,386	48,386
Transfers in	510,350	510,350	340,906	(169,444)
Total Revenues	36,888,153	36,888,153	37,535,819	647,666
Expenditures				
Mayor	22,735	22,735	22,928	(193)
Administration	1,555,180	1,522,535	1,459,374	63,161
Assessor	173,135	173,135	167,318	5,817
Information services	402,665	405,929	405,786	143
Finance department	372,355	372,355	368,191	4,164
City clerk	191,530	191,530	188,576	2,954
Planning department	45,385	45,385	47,727	(2,342)
Economic development	275,350	275,350	272,631	2,719
Public works	3,704,460	3,704,460	3,534,855	169,605
Parks, culture and recreation	566,140	566,140	553,907	12,233
Police	3,015,525	3,044,906	3,063,699	(18,793)
Communication center	554,270	554,270	561,856	(7,586)
Fire	2,072,550	2,072,550	2,052,826	19,724
Code enforcement	83,245	83,245	85,021	(1,776)
Health and welfare	300,230	300,230	249,029	51,201
Education	21,178,618	21,178,618	20,879,615	299,003
County tax	745,175	745,175	733,813	11,362
Unclassified	31,100	31,100	22,521	8,579
Debt service (excluding education portion)	1,419,605	1,419,605	1,419,607	(2)
Transfers out	1,332,900	1,332,900	1,440,347	(107,447)
Total Expenditures	38,042,153	38,042,153	37,529,627	512,526
Deficiency of Revenues Over Expenditures	(1,154,000)	(1,154,000)	6,192	\$ 1,160,192
Beginning Fund Balance Utilized	1,154,000	1,154,000		
Fund Balance, Beginning of Year			6,164,852	
Fund Balance, End of Year	\$ -	\$ -	\$ 6,171,044	

See independent auditor's report.

The accompanying notes are an integral part of these financial statements.

Statement of Fiduciary Net Position - Fiduciary Funds

June 30, 2016

	Private- Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents		\$ 408,753
Investments	\$ 275,086	87,868
Due from other funds		36,344
Total Assets	\$ 275,086	\$ 532,965
LIABILITIES AND NET POSITION		
Liabilities:		
Due to student groups		\$ 495,785
Amount held for others		37,180
Total Liabilities		\$ 532,965
Net Position		
Held in trust	\$ 275,086	

See independent auditor's report.

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Position - Fiduciary Funds

Year Ended June 30, 2016

	Private- Purpose Trust Funds
Investment Income and Donations	\$ 727
Scholarships and Related Expenses	<u>8,173</u>
Change in Net Position	(7,446)
Net Position, Beginning of Year	<u>282,532</u>
Net Position, End of Year	<u><u>\$ 275,086</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these financial statements.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Waterville, Maine (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (standards and interpretations), constitute GAAP for governmental units. GAAP also includes guidance from the American Institute of Certified Public Accountants in a publication entitled State and Local Governments. The more significant of the City's accounting policies are described below.

Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units for which the City may be financially accountable and, as such, should be included within the City's financial statements. In accordance with GASB Statement No. 14 as amended by GASB Statement No. 61, the City is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

Included within the reporting entity:

The following three entities have been included in the reporting entity. The Waterville/Winslow Solid Waste Disposal Corporation and the Robert H. Lafleur Airport are not considered to be separate legal entities from the City. The financial activity related to these organizations has been included in the appropriate funds of these financial statements. The Waterville Public Library is a separate legal entity but has met the criteria of a component unit due to the City's financial accountability. A brief description of these three entities follows:

The Waterville/Winslow Solid Waste Disposal Corporation

The Waterville/Winslow Solid Waste Disposal Corporation has its own Board of Directors. The appointment of the majority of the members of the Board is controlled by the City. Decisions made by the Disposal Corporation Board are subject to the approval of the City. The Disposal Corporation Board functions solely as a steering committee and does not control any financial resources of the landfill or transfer facility. All the financial activity of the landfill and transfer facility are reported in Public Works in the general fund of the City and is controlled by the Waterville City Council.

Robert H. Lafleur Airport

The airport is not a legally separate entity from the City and, therefore, all of the airport's financial activity has been reported in these financial statements in the special revenue and capital project funds.

Waterville Public Library

Waterville Public Library has a separate Board appointed by the City. The City funds approximately \$400,000 of the Library's annual expenditures. In addition to general operation, the Library Board controls a substantial amount of trust funds held for the benefit of the Library. The Library is considered a component unit and is discretely presented in the government-wide financial statements.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Joint Venture – The city has entered into a joint venture with another entity. This joint venture is considered to be a separate reporting entity and has not been included within the financial statements of the City. The joint venture is as follows:

Kennebec Regional Development Authority (FirstPark) was formed in 1998 through an act of the Maine State Legislature. Its primary purposes, according to the Act, were to strengthen the financial condition of local governments within the geographic territory of the Authority, while combining resources and sharing costs for meeting regional economic development needs and challenges; to promote and develop infrastructure and programs for employment and economic development opportunities and other conditions to positively affect regional development. The intent was that the members would fund the start-up costs and then all benefit from the tax revenues later on. There are currently 24 governments who are members of the Authority, including the City.

The Authority derives the bulk of its revenue from the participants, but also receives some grant revenue from the State of Maine. During fiscal year 2016, the City contributed \$72,005. Complete financial statements may be obtained from Kennebec Regional Development Authority at P.O. Box 246, Oakland, ME 04963.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been eliminated from these statements. Governmental activities are primarily supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when the payment is due.

City of Waterville, Maine
NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus, Basis of Accounting and Basis of Presentation – Continued

Those revenues susceptible to accrual are property taxes, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City reports the following major governmental fund:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the City reports the following fund type:

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. The City's fiduciary funds include the following fund types:

Private-purpose trust funds are used to report all trust arrangements (other than pension and investment trust funds) under which principal and income benefit individuals, private organizations, or other governments.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. The funds are used to account for assets that the City holds for others in an agency capacity.

Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months or less. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, commercial paper, repurchase agreements and certain corporate stocks and bonds. Cash equivalents include certificates of deposits with a longer maturity.

Investments are stated at fair value. Investment income and realized and unrealized gains and losses are reported in the statement of revenues, expenditures and changes in fund balances – governmental funds and in the statement of activities in the government wide financial statements.

Interfund Receivables/Payables

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed.

Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The costs of governmental fund-type inventories are generally recorded as expenditures when consumed rather than when purchased. Some items in the special revenue fund have been recorded as assets and the related fund balances are reserved for these amounts because these "inventories" do not constitute expendable available financial resources.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, or estimated historical cost when historical cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend assets' lives are not capitalized.

For City roads and other infrastructure, maintenance is defined as repairs that are regularly scheduled and are normal for that type of road surface. These costs are generally expensed, even though the cost may exceed the capitalization threshold. However, if the road is "improved" or "rebuilt" by straightening curves, upgrading the surface type, replacing low water crossings, digging up old pavement down to the road base or any other major change, it must be capitalized and depreciated if it exceeds the threshold of \$50,000 and adds to the life or capacity of the road or infrastructure.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the assets' estimated useful lives ranging from 3 to 40 years.

For all capital assets – buildings, vehicles, equipment – the City elects to use the Depreciation Approach defined by Statement No. 34 for reporting.

This process determined the original cost, which is defined as the actual cost to acquire new property in accordance with market process at the time of first construction/acquisition. Original costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight-line, unrecovered cost method was computed using industry accepted life expectancies for each capital asset. The book value was then computed by deducting the accumulated depreciation from the original cost.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The deferred outflows of resources reported in the governmental activities column in the government-wide financial statements relate to the net pension liability, which include the City and School's pension plan contributions made subsequent to the measurement date, which are recognized as a reduction of the net pension liability in the subsequent year. They also include differences between expected and actual experience, differences between projected and actual investment earnings on pension plan investments, changes in assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions. See Note 10 for additional disclosures related to pension plans.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. No current expenditure is reported for these amounts in the fund financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City's governmental funds have one type of item that arises under a modified accrual basis of accounting that qualifies for reporting in this category, unavailable revenue from property taxes. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The deferred inflows of resources reported in the governmental activities column in the government-wide financial statements relate to the net pension liability and include differences between expected and actual experience, differences between projected and actual investment earnings on pension plan investments, and changes in proportion and differences between employer contributions and proportionate share of contributions. See Note 10 for additional disclosures related to pension plans.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs if material to the basic financial statements, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances

In the governmental fund financial statements fund balance is reported in five classifications.

Nonspendable - nonspendable represents fund balance amounts that are not in spendable form, such as inventories or resources that must be maintained intact pursuant to legal or contractual requirements.

Restricted - restricted fund balance represents resources with constraints placed on the use of resources which are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. An example of restricted funds would be TIF Fund commitments.

Committed - committed is the portion of fund balance which is subject to limitations the government imposes on itself at its highest level of decision making authority, and that remain binding unless removed in the same manner. An example of committed funds would be amounts for City initiated only projects of activities in the Recreation and Capital Funds.

Assigned - assigned is the portion of fund balance that is constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Special revenue balances that do not meet the above categories are considered assigned.

Unassigned - fund balance that has not been reported in any other classification. Note that in all governmental funds other than the general fund, amounts expended in excess of resources that do not meet the above categories are classified here - i.e., residual deficits.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balances – Continued

The City's fund balance policy established that an amount equal to at least 12% of the City's most recent approved operating budget shall be established as a minimum undesignated fund balance. Annually, following completion of the City's audit, the City Manager shall review the undesignated fund balance and propose to utilize, through the annual budget process, surplus funds above the 12% minimum, if any. Use of those undesignated fund balance funds should be dedicated to projects in the capital improvement program or other unanticipated one-time expenses. The Council may vote to establish certain reserve accounts from the undesignated fund balance for the purpose of funding specific capital improvements needs in the future and may, by a two-thirds (2/3) vote, decide to expend or to reserve amounts greater than that listed above based on the immediate or long-term needs of the City.

The City has no formal revenue spending policy for programs with multiple revenue sources. The Finance Director uses resources in the following hierarchy unless otherwise directed by Statute or the City Council: bond proceeds, federal funds and State funds, local non-City funds, City funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, and information about the fiduciary net position of the Maine Public Employees Retirement System PLD Consolidated Plan (PLD Plan) and the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan) and additions to/deductions from both Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. See Note 10 for additional disclosures related to pension plans.

Use of Estimates

Preparation of the City's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

During the year ended June 30, 2016, the City adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the City uses various methods including market, income and cost approaches. Based on these approaches, the City often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurements – Continued

The City utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Valuation for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques. Level 3 valuations incorporate the entity's own assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the City performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the year ended June 30, 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment Securities

The fair value of fixed income and publicly traded equity securities is based on quoted market prices, when available, or market prices provided by recognized broker dealers. The fair value of shares in mutual funds is based on share values reported by the funds as of the last business day of the fiscal year. If listed prices are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. The fair value of securities sold under agreements to repurchase is determined based on the underlying securities provided that back the repurchase agreements.

Fair values of assets measured on a recurring basis are as follows at June 30, 2016 for the City using:

	Fair Value	Level 1	Level 2	Level 3
Repurchase Agreements	\$ 7,840,638		\$7,840,638	
U.S. Treasuries	130,361	\$130,361		
Common Stock	1,404,494	1,404,494		
Mutual Bond Funds	795,697		795,697	
Total Investments	<u>\$10,171,190</u>	<u>\$1,534,855</u>	<u>\$8,636,335</u>	

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurements – Continued

Fair values of assets measured on a recurring basis are as follows at June 30, 2016 for the Waterville Public Library (component unit) using:

	Fair Value	Level 1	Level 2	Level 3
Bonds	\$33,254		\$33,254	
Common Stock	265,706	\$265,706		
Mutual Funds	1,011,261		1,011,261	
Money Market	50,145	50,145		
Total Investments	<u>\$1,360,366</u>	<u>\$315,851</u>	<u>\$1,044,515</u>	

Recently Adopted Accounting Pronouncements

During the year ended June 30, 2016, the City adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. The requirements of this statement extend the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions. It also clarifies the application of certain provisions of GASB Statements No. 67 and 68 with regard to information that is required to be presented as notes to the 10-year schedules as required supplementary information about investment-related factors that significantly affect trends in the amounts reported, accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployers contributing entities for defined benefit pensions and the timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation. The adoption of this statement did not have a significant effect on the City's financial statements.

During the year ended June 30, 2016, the City adopted the provisions of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify, in the context of the current governmental reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of this statement did not have a significant effect on the City's financial statements.

Recent Accounting Pronouncements

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The statement also requires that governments organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs. The new statement is effective for financial statements for periods beginning after December 15, 2015. The City is currently assessing the impact of this statement on its financial statements.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recent Accounting Pronouncements – Continued

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this statement addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for fiscal years beginning after June 15, 2016. The City is currently assessing the impact of this statement on its financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Each year the City Manager submits to the City Council a budget for the ensuing fiscal year and an accompanying message. The City Manager's message explains the budget both in fiscal terms and in terms of the work programs. It outlines the proposed financial policies of the City for the upcoming fiscal year; describes the important features of the budgets; indicates any major changes from the current year in financial policies, expenditures, and revenues, together with the reasons for such changes; summarizes the City's debt position; and includes such other material as the City Manager deems desirable. It also describes the tax impact of the proposed budget. The City charter requires that the budget be submitted to the City Council no later than 90 days prior to the beginning of the new fiscal year.

Hearings are held to obtain public comments. The budget is legally enacted by an appropriation order. The order enacts the total City and the total School appropriation. In addition, separate orders are adopted for individual budgeted special revenue funds. Any revisions to the budget that alter total expenditures must be approved by the Council.

All unexpended appropriations lapse at year-end unless specific approval is granted to carry forward such amounts. Department level total expenditures should not exceed appropriations.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting – under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation – is utilized in the governmental funds. For reporting under GAAP, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

On-behalf payments, which represent a contribution to the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan) made by the State of Maine on-behalf of the School Department, are recorded as revenue and expense under GAAP and have been excluded from both revenue and expenditures on the budgetary basis of accounting.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

Deficit Fund Balances

The individual special revenue funds carrying fund deficits as of June 30, 2016 are as follows:

Airport Fund	\$74,740
Grant Fund	11,240

The individual capital projects funds carrying fund deficits as of June 30, 2016 are as follows:

Improve First Rangeway Intersection	\$195,008
Airport Runway Design	781
Waterville Opera House Project	507
Mayflower Hill	60,747
Downtown Traffic Study	55,607
School Improvement	289,965

Deficits in special revenue funds and capital projects funds will be funded by future bond proceeds, grants, and donations from third-parties, and/or future transfers from general fund.

NOTE 3 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is that in event of a bank failure, the government's deposits may not be returned to it.

Primary Government – City of Waterville, Maine

The City has a policy whereby all deposits are to be insured by FDIC insurance or when the amount of deposit balances exceeds FDIC insurance the balance in excess of FDIC insurance must be collateralized. As of June 30, 2016, \$284,305 of the City's bank balances of \$3,702,791 was exposed to custodial credit risk. The remaining bank balance is covered by FDIC insurance or is collateralized.

The Public Schools do not have a deposit policy for custodial credit risk. As of June 30, 2016, \$15,717 of the Public Schools' bank balances of \$828,835 was exposed to custodial credit risk. The remaining bank balance is covered by FDIC insurance or is collateralized.

Component Unit – Waterville Public Library

The Library does not have a policy for custodial credit risk. As of June 30, 2016, none of the Library's bank balance of \$19,084 was exposed to custodial credit risk.

City of Waterville, Maine
NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Investments

Primary Government – City of Waterville, Maine

Maine statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, commercial paper, repurchase agreements, and certain corporate stocks and bonds.

As of June 30, 2016, the City had the following investments and maturities:

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 – 5	6 – 10	No Maturity
Repurchase Agreements	\$ 7,840,638	\$7,840,638			
U.S. Treasuries	130,361		\$130,361		
Common Stock	1,404,494			\$9,997	\$1,394,497
Mutual Bond Funds	795,697				795,697
Total Investments	<u>\$10,171,190</u>	<u>\$7,840,638</u>	<u>\$130,361</u>	<u>\$9,997</u>	<u>\$2,190,194</u>

Investments are categorized by fund as follows:

	Public Schools	City	Total
General Fund		\$ 7,840,638	\$ 7,840,638
Fiduciary Funds:			
Private-Purpose Trust Funds	\$275,083		275,083
Agency Funds	87,868		87,868
Permanent Fund		1,967,601	1,967,601
Total Investments	<u>\$362,951</u>	<u>\$ 9,808,239</u>	<u>\$10,171,190</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The City's policy for managing interest rate risk is, to the extent possible, to attempt to match investments with anticipated cash requirements. Maturities will be two years or less for operating fund investments and five years or less for other long-term funds. This does not apply to trust funds held by the City. The City may collateralize its repurchase agreements using longer term investments through a Letter of Credit with banks of such standing and quality as the Federal Home Loan Bank of Boston or the Federal Reserve Bank.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Funds of the City may be invested in the following types of securities:

- Obligations of the U.S. government, its agencies and instrumentalities, i.e., Treasury bills, Treasury notes or bonds maturing within one year.
- Insured or fully collateralized certificates of deposit of banks and savings and loan associations.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Credit Risk – Continued

- Repurchase agreements collateralized by letters of credit from such institutions such as Federal Home Loan Bank or the Federal Reserve Bank; or by U.S. Government backed obligations of U.S. Government agencies and corporations. Pledged collateral must be at least 102% of the market value of the principal and accrued interest and marked-to-market daily. A master repurchase agreement must be signed with the bank or dealer and kept on file by the Finance Director.
- Money market mutual funds whose portfolios consist entirely of U.S. Government securities.
- Permanent fund investments may consist of common stock and mutual funds in accordance with any investment guidelines as established by the respective trust agreements.

Funds may be invested in longer maturities, prime bankers' acceptances and secured commercial paper with AAA rating according to the Standard & Poor's rating scale upon adoption of a motion of authorization by the majority of the governing body at a regular or special public meeting.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investments with material exposure to custodial credit risk at this time.

Concentration of Credit Risk

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer.

City of Waterville, Maine

With the exception of U.S. Treasury securities of Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit, no more than seventy percent of the City's total investment portfolio may be invested in a single security type or with a single financial institution. As of June 30, 2016 the City's investments were sufficiently diversified according to their policy.

Waterville Public Schools

The Public Schools' investment policies are governed by Maine Statutes, generally 30-A M.R.S.A. 5706-5715. The Public Schools' investments consist of \$362,951 invested in open-end mutual funds, which are sufficiently diversified; therefore as of June 30, 2016 none of the Public Schools' investments were exposed to concentration of credit risk.

Component Unit – Waterville Public Library

As of June 30, 2016, Waterville Public Library had the following investments and maturities:

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 – 5	6 – 10	No Maturity
Bonds	\$ 33,254		\$11,402	\$21,852	
Common Stock	265,706				\$265,706
Mutual Funds	1,011,261				1,011,261
Money Market	50,145	\$50,145			
Total Investments	<u>\$1,360,366</u>	<u>\$50,145</u>	<u>\$11,402</u>	<u>\$21,852</u>	<u>\$1,276,967</u>

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Interest Rate Risk – The Library has no investment policy that addresses interest rate risk.

Credit Risk – The Library's investment policy allows investments to be comprised of stocks, mutual funds and investment grade bonds. As of June 30, 2016 the Library's investments in corporate bonds were rated between Baa3 and Aa3 by Moody's.

Concentration of Credit Risk – The Library limits investments to no more than 5% in any one issuer. As of June 30, 2016 none of the Library's individual holdings exceeded 5% of total investments.

NOTE 4 – PROPERTY TAX

Property taxes for the current year were committed on August 14, 2015, on the assessed value listed as of the prior April 1 for all real and personal property located in the City. Assessed values are periodically established by the City's Assessor at 100% of assumed market value.

The City is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$175,491 for the year ended June 30, 2016.

Tax liens are placed on real property within 12 months following the tax commitment date if taxes are delinquent. The City has the authority to foreclose on property 18 months after the filing of the lien if the tax liens and associated costs remain unpaid.

Property taxes levied during the year were recorded as receivables at the time the levy was made. The receivables collected during the year and in the first 60 days following the end of the fiscal year have been recorded as revenues. The remaining receivables have been recorded in the City's governmental funds as a deferred inflow of resources, unavailable revenue – property taxes.

The following summarizes the levy as of and for the year ended June 30, 2016:

Assessed value	\$635,071,291
Tax rate (per \$1,000)	<u>27.80</u>
Commitment	<u>17,654,982</u>
Less:	
Abatements	12,608
Collections	<u>16,516,247</u>
	<u>16,528,855</u>
Current year taxes receivable at end of year	<u>\$1,126,127</u>
Due date(s) – current year	¼ October 9, 2015 ¼ December 11, 2015 ¼ March 11, 2016 ¼ June 10, 2016
Interest rate on delinquent taxes	7.00%
Collection rate	93.55%
Taxes receivable – current year	\$1,126,127
Taxes receivable – prior year	<u>1,843</u>
Total taxes receivable	<u>\$1,127,970</u>

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 5 – CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets in the government-wide statement of net position. All capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense has been recorded. The table below presents summary information on capital assets for the year ended June 30, 2016.

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,986,644			\$ 1,986,644
Construction in progress	9,196,633	\$3,184,887	\$3,170,242	9,211,278
Total capital assets not being depreciated	<u>11,183,277</u>	<u>3,184,887</u>	<u>3,170,242</u>	<u>11,197,922</u>
Capital assets being depreciated:				
Buildings	43,391,825			43,391,825
Improvements	6,733,220	3,170,242		9,903,462
Vehicles	6,405,604	440,816	825,762	6,020,658
Equipment	4,654,372	410,103	48,900	5,015,575
Infrastructure	17,256,711			17,256,711
Total capital assets being depreciated	<u>78,441,732</u>	<u>4,021,161</u>	<u>874,662</u>	<u>81,588,231</u>
Less accumulated depreciation for:				
Buildings	18,481,147	1,464,917		19,946,064
Improvements	4,310,719	162,779		4,473,498
Vehicles	4,818,227	378,643	825,762	4,371,108
Equipment	3,615,385	222,219	24,043	3,813,561
Infrastructure	13,724,375	252,409		13,976,784
Total accumulated depreciation	<u>44,949,853</u>	<u>2,480,967</u>	<u>849,805</u>	<u>46,581,015</u>
Total capital assets being depreciated, net	<u>33,491,879</u>	<u>1,540,194</u>	<u>24,857</u>	<u>35,007,216</u>
Governmental Activities Capital Assets, Net	<u>\$44,675,156</u>	<u>\$4,725,081</u>	<u>\$3,195,099</u>	<u>\$46,205,138</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Administration	\$ 108,096
Assessor	5,042
Information services	6,496
City Clerk	2,202
Public works (includes infrastructure)	393,126
Parks, recreation and culture	42,530
Police	147,123
Fire	183,472
Airport	228,950
Education	1,363,930
Total depreciation expense – governmental activities	<u>\$2,480,967</u>

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities for governmental activities for the year ended June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds and notes payable	\$25,638,008		\$1,889,054	\$23,748,954	\$2,243,319
Premium on bonds	242,500		11,548	230,952	11,548
Capital leases	99,361	150,371	67,537	182,195	47,071
Accrued compensated absences	469,318		22,141	447,177	209,569
Landfill closure liability	96,352		96,352		
Other post-employment benefits liability	470,917	68,607		539,524	
Net pension liability	<u>1,418,192</u>	<u>755,278</u>		<u>2,173,470</u>	
Long-term liabilities	<u>\$28,434,648</u>	<u>\$974,256</u>	<u>\$2,086,632</u>	<u>\$27,322,272</u>	<u>\$2,511,507</u>

NOTE 7 – CAPITAL LEASES

The Department of Public Schools is engaged in two capital leases, and the City is engaged in two capital leases as of June 30, 2016. The original cost of assets capitalized under these leases total \$196,484. Future minimum capital lease payments are as follows:

Principal	
2017	\$47,071
2018	47,508
2019	49,089
2020	31,943
2021	<u>6,584</u>
	<u>\$182,195</u>
Interest	
2017	5,566
2018	4,016
2019	2,435
2020	800
2021	<u>32</u>
	<u>12,849</u>
Total payments	195,044
Less interest	<u>12,849</u>
Net present value	<u>\$182,195</u>

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 – LONG-TERM DEBT

Bonds payable at June 30, 2016 are comprised of the following:

	Date of Issue	Original Amount Issued	Date of Maturity	Interest Rate	Ending Balance
2007 QZAB Bond	10/9/07	\$965,000	2022	1.4407%	\$476,126
2008 QZAB Bond	7/16/08	516,279	2023	1.84%	292,840
2009 QZAB Bond	11/18/09	4,333,368	2025	1.40%	2,600,021
2011 QSCB Bond	5/26/11	5,000,000	2025	5.692%	3,128,005
2011 General Obligation Bond	5/3/11	3,150,000	2031	2.00-4.00%	2,390,000
2011 General Obligation Bond	5/3/11	3,096,000	2020	1.70-2.85%	1,616,000
2012 QSCB Bond	7/15/11	943,859	2027	5.366%	760,962
2013 General Obligation Bond	11/1/12	3,300,000	2033	1.00-2.75%	2,715,000
2013 General Obligation Bond	4/1/13	5,831,120	2038	2.00-3.50%	4,975,000
2015 General Obligation Bond	5/1/15	5,250,000	2036	2.00-4.00%	4,795,000
Total bonds payable					<u>\$23,748,954</u>

The 2015 General Obligation Bond is subject to mandatory redemption in part prior to maturity on June 1 in each of the years 2026-2036 from mandatory sinking fund installments which will be required to be made by the City in amounts sufficient to redeem the principal amount of such bonds. All other bonds may be prepaid or redeemed prior to their respective scheduled due dates as per provisions in the bond agreements.

Arbitrage rebate – Pursuant to the Tax Reform Act of 1986, governments issuing tax-exempt bonds or entering into note or lease obligations are required to perform an arbitrage rebate calculation upon the fifth anniversary of the obligation and to remit such rebate to the federal government, subject to certain exceptions. Since August 15, 1986, the effective date of these rules, the City has not been subject to any arbitrage refunds as they have met the exceptions to the arbitrage requirements.

The annual requirements to amortize all long-term debt outstanding as of June 30, 2016 are as follows:

Year Ending	Principal	Interest	Total
2017	\$2,243,319	\$560,165	\$2,803,484
2018	2,252,758	522,386	2,775,144
2019	2,242,380	482,366	2,724,746
2020	2,252,164	440,228	2,692,392
2021	1,978,210	346,815	2,325,025
2022-2026	8,060,989	1,406,368	9,467,357
2027-2031	2,844,134	565,055	3,409,189
2032-2036	1,585,000	172,260	1,757,260
2037-2041	290,000	15,080	305,080
	<u>\$23,748,954</u>	<u>4,510,723</u>	<u>\$28,259,677</u>

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 – LONG-TERM DEBT – CONTINUED

The City is subject to a statutory limitation by the State of Maine of its general long-term debt equal to 15% of the State's valuation of the City. The City's outstanding long-term debt of \$23,748,954 was within the statutory limit.

The State of Maine currently reimburses the City for a portion of the financing costs of certain school buildings. Continuation of such reimbursements is dependent upon continued appropriation by the State Legislature.

NOTE 9 – INTERFUND BALANCES

As of June 30, 2016, the balances of interfund loan receivable/payable were as follows:

	Interfund Loans Receivable	Interfund Loans Payable	Due to Agency Funds
General fund	\$1,160,300	\$3,097,670	\$36,344
Other governmental funds	3,233,415	1,296,045	
Agency funds	36,344		
Total	<u>\$4,430,059</u>	<u>\$4,393,715</u>	<u>\$36,344</u>

NOTE 10 – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS)

PLD Consolidated Plan

Description of the Plan – The City and School Department (custodians, school lunch personnel and other non-teacher personnel) contribute to the Maine Public Employees Retirement System PLD Consolidated Plan (PLD Plan), a cost-sharing, multiple-employer retirement system established by the Maine State Legislature. The MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Maine State Legislature establishes and amends benefit provisions. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained at www.maineopers.org.

Funding Policy (City) – Plan members are required to contribute 9.0% of their annual covered salary and the City is required to contribute an actuarially determined rate. The current rate is 7.0% of annual covered payroll. The contribution rates of plan members and the City are established and may be amended by the Maine State Legislature. During 2016, contributions to the PLD Plan by the City were \$193,147.

Funding Policy (School Department) – The contribution rates of plan members and Public Schools are established and may be amended by the MPERS Board of Trustees.

State Employee and Teacher Plan

Description of the Plan – All school teachers and other qualified educators participate in the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan). The SET Plan is a cost-sharing plan with a special funding situation, established by the Maine State Legislature. The MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the MPERS Board of Trustees. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the teacher's group. That report may be obtained at www.maineopers.org.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 10 – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS) – CONTINUED

State Employee and Teacher Plan – Continued

Funding Policy – Plan members are required to contribute 7.65% of their compensation to the retirement system. The School's contractually required contribution rate for the year ended June 30, 2016 was 13.38%, of which 3.36% was required from the School and 10.02% was required from the State of Maine. Contributions to the pension plan from the School and the State of Maine were \$342,103 and \$1,020,200 during the year ended June 30, 2016, respectively. The amount contributed by the State of Maine (on-behalf payments) has been reported as an intergovernmental revenue and retirement expenditure in the financial statements within the education department. The School is also required to contribute for those positions that are federally funded. This contribution amounted to \$85,026 for the year ended June 30, 2016. The cost is chargeable to the applicable grant.

Pension Liabilities, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, requires employers who participate in defined benefit pension plans to recognize a net pension liability on their financial statements. The net pension liability is defined as the total pension liability minus the pension plan's fiduciary net position. Cost-sharing employers are required to report their proportionate share of the net pension liability for the plan as a whole.

At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability. The amount recognized by the City as its proportionate share of the net pension liability was as follows:

City's proportionate share of net pension liability	\$1,210,687
School's proportionate share of net pension liability	<u>962,783</u>
Total net pension liability	<u>\$2,173,470</u>

As discussed above, the State of Maine participates in the SET Plan as a non-employer contributing entity. At June 30, 2016, the portion of the State of Maine's net pension liability associated with the School was \$11,114,516. This amount is not required to be recognized in the City's financial statements.

The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportionate share of the net pension liability recognized in the financial statements was based on a projection of the City and School's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, as determined by an actuarial valuation. At June 30, 2015, the City's proportion was 0.37947% and the School's proportion was 0.071311%.

For the year ended June 30, 2016, the City recognized pension expense of \$581,969.

At June 30, 2016, the City reported deferred outflows of resources related to the pension plans in the government-wide financial statements from the following sources:

Difference between expected and actual experience	\$ 48,883
Difference between projected and actual investment earnings on pension plan investments	577,386
Change of assumptions	133,520
Changes in proportion and differences between employer contributions and proportionate share of contributions	106,630
Total contributions subsequent to the measurement date	<u>620,276</u>
Total	<u>\$1,486,695</u>

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 10 – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS) – CONTINUED

Pension Liabilities, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions – Continued

Contributions made during the reporting period were \$620,276. GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, requires that if an employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, the government must recognize its contribution as a deferred outflow of resources.

At June 30, 2016, the City reported deferred inflows of resources related to the pension plans in the government-wide financial statements from the following sources:

Difference between expected and actual experience	\$162,177
Difference between projected and actual investment earnings on pension plan investments	712,391
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>238,802</u>
Total	<u>\$1,113,370</u>

Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows during the years ended June 30:

2017	\$(76,173)
2018	(162,143)
2019	(152,980)
2020	144,347

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.5%
Salary increases	3.50%-13.50% per year
Investment return	7.125% per annum, compounded annually
COLA increases	2.55% per annum

Mortality rates – for active state employee members and non-disabled retirees of the SET and PLD Plans, the RP2000 Tables projected forward to 2015 using Scale AA are used; for active members and non-disabled retirees of the teachers' plan, the ages are set back two years; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 10 – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS) – CONTINUED

Actuarial Assumptions – Continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equities	20%	5.2%
Non-US Equities	20	5.5
Private Equity	10	7.6
Real Assets:		
Real Estate	10	3.7
Infrastructure	10	4.0
Hard Assets	5	4.8
Fixed Income	25	0.7

The discount used to measure the collective total pension liability was 7.125% for the SET Plan and the PLD Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine net pension liability.

The following table shows how the City's proportionate share of net pension liability as of June 30, 2015 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the SET Plan and the PLD Plan.

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability	\$2,412,046	\$1,210,687	\$71,723
School's proportionate share of the net pension liability	1,685,605	962,783	360,756

Changes in Net Pension Liability

Changes in net pension liability are recognized in pension expense for the year ended June 30, 2015 with the following exceptions.

Differences between Expected and Actual Experience

The difference between expected and actual experience with regard to economic or demographic factors was recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For 2015, this was 3 years for the SET Plan and 4 years for the PLD Plan.

Differences between Projected and Actual Investment Earnings

Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed five-year period.

City of Waterville, Maine
NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 10 – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (MPERS) – CONTINUED

Changes in Net Pension Liability – Continued

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. There were no changes in assumptions in the SET Plan. For the PLD Plan, the discount rate was decreased from 7.25% to 7.125% and the cost of living benefit increase assumption was changed from 3.12% to 2.55%.

Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions

Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

Additional Financial and Actuarial Information

Additional financial and actuarial information with respect to the Plans can be found in the MPERS' 2014 Comprehensive Annual Financial Report available online at www.mainebers.org or by contacting the System at (207) 512-3100.

NOTE 11 – DEFERRED COMPENSATION PLAN

The City offers all its employees not participating in the MPERS a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City is a member of the Maine Municipal Employees Health Trust (MMEHT). The Trust contracted with an outside consultant to assist in the determination and valuation of the City's OPEB liability under GASB 45. An OPEB liability actuarial valuation was completed by the consultants in August 2014.

Plan Descriptions – The City offers two separate health insurance plans. Employees are placed into a plan depending on their position and bargaining unit (if applicable). The City does not provide any payment toward employee retirement benefits for health, dental or life insurances. However, if an employee meets the requirements, they may, at their own cost, remain on the employer's health insurance plan.

All non-union administrative employees, employees in the AFSCME bargaining unit, and employees in the Maine Association of Police bargaining unit are eligible for health, dental and life insurance through the MMEHT.

The criteria for being eligible to remain on the City's health insurance plan with MMEHT after retiring are as follows:

1. The employee must have been employed by the City for the last five consecutive years.
2. The employee must be at least 55 years of age on the date of retirement.
3. The employee must be receiving benefits from a retirement plan established by the City (i.e., Maine Public Employees Retirement System or ICMA).

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS – CONTINUED

Funding Policy and Annual OPEB Cost – GASB Statement 45 does not mandate the prefunding of postemployment benefits liability. The City currently plans to fund these benefits on a pay-as-you-go basis. No assets have been restricted to provide postemployment benefits. The annual required contribution (ARC), an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed 30 years.

The following table represents the OPEB costs for the year and the annual required contribution:

Normal cost	\$44,004
Amortization of unfunded actuarial liability	40,316
Interest	1,670
Annual required contribution	85,990
Offset to annual required contribution	(17,383)
2016 OPEB liability expense	68,607
Fiscal year ending 2015 OPEB accrued liability	470,917
Total accrued liability fiscal year ended 2016	\$539,524

Funding Status and Funding Progress – The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ending December 31, 2014 was as follows:

Annual required contribution	\$85,990
Actual contribution	17,383
Percent contributed	20.22%
Actuarial accrued liability	\$725,027
Plan assets	\$725,027
Unfunded actuarial accrued liability	\$725,027
Covered payroll	\$5,349,667
Unfunded actuarial accrued liability as a percentage of covered payroll	13.55%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revisions. Actual results are compared to past expectation and new estimates are made about the future. The schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS – CONTINUED

Actuarial Methods and Assumptions – Projections of benefits are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the Plan members at that point. Actuarial calculations reflect long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of plan assets. Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2014
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Level dollar
Remaining amortization	Period 30 years
Actuarial assumptions:	
Investment rate of return	4.00%
Projected salary increases	3.00%
Healthcare inflation rate	4.60%

NOTE 13 – TAX INCREMENT FINANCING (TIF) DISTRICT

The City has established seven tax increment financing districts under the terms of applicable State laws which were still in effect during the year ended June 30, 2015.

In August 1996, the City established **The Upper Main Street Tax Increment Financing and Development District**. The District is designed to provide incentives for the revitalization of a major retail corridor in the City. By using a mechanism known as a credit enhancement agreement (CEA), the City will return a portion of new tax revenues generated within the District to the developer as new taxable value is created. Under the agreement, the City returns 75% of newly generated tax revenues to the developer in years 1 through 5 of the project, and 50% in years 6 through 20 of the project.

In July 2000, the City established **The Chinnet Company Tax Increment Financing District**. The purpose of the District is to secure the City's industrial job base and to ensure the long-term economic stability and well-being of the Chinnet Company Plant. The project provides the City with additional tax revenues and a potential long-term increase in employment without an increase in demand for local service. The overhauling of machinery and equipment at the Chinnet Company Plant added approximately \$8,157,301 of new tax base to the City. Chinnet will finance the improvements within the District. The City will not assume any financial liability within the District. Under the District CEA, the appropriate percentages of new tax revenues will be reinvested into the District to support the cost of capital investment. The design is intended to capture the appropriate percentage of new investment above the current base value of \$2,320,230. For municipal assessed values in excess of this amount from investment made in the first five years of the TIF ending April 1, 2005, the resulting tax revenue will be distributed 75% to the Chinnet Company for the first 10 years following the year in which the investment is made and 50% in years 10 through 15 following the year in which investment is made through the CEA.

In October 2002, the City established the **Airport Park Tax Increment Financing and Development District**. The District is designed to create and save jobs, and improve infrastructure (Century Drive and Airport Road). The City will retain 100% of the captured assessed value. This will be used to fund the Airport Park TIF District Development Program Sinking Fund. The Sinking Fund shall consist of the captured assessed value earnings less the monies necessary for repayment of debt incurred from the initial construction of Century Drive and the continuation of Airport Road and less the monies to fund the enhancement reimbursements as may be required. Credit enhancement reimbursements may not exceed 75% for years 1 through 5, and 50% for years 6 through 15 for the manufacturing sector. The non-manufacturing sector may receive credit enhancement reimbursements not exceeding 50% for years 1 through 10.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 13 – TAX INCREMENT FINANCING (TIF) DISTRICT – CONTINUED

In December 2004, the City established the **Downtown Redevelopment Tax Increment Financing District**. The City is authorized to capture 100% of the increased assessed value of real and personal property in the District as set forth in the financial plan section of the application received initially by the State on February 3, 2005, and in final form May 24, 2005. The tax increment arising from this captured value is to be used expressly for the project costs described in the Development Program, i.e., potential CEA with developers and owners of site specific real estate projects; and other eligible project costs in the downtown, including capital costs, financing costs, professional services, and administrative expenses. In May 2016, the City approved the extension of this Tax Increment Financing District to a 30 year term.

In October 2006, the City established the **Lockwood Mills Tax Increment Financing District**. The purpose of the District is to generate substantial economic benefit for the City and its residents, including employment opportunities, broadened and improved tax base and economic stimulus. The City is authorized to capture 100% of the increased assessed value of real and personal property in the District as set forth in the financial plan. The tax increment arising from this captured value is to be used expressly for the project costs described in the Development Program, i.e., potential CEA with developers and owners of site specific real estate projects; and other eligible project costs, including capital costs, financing costs, professional services, and administrative expenses.

In February 2007, the City established the **Mid-State Machine Products Tax Increment Financing District**. The purpose of the District is to secure the City's industrial job base and to ensure the long-term economic stability and well-being of Mid-State Machine Products. The project provides the City with additional tax revenues and a potential long-term increase in employment without an increase in demand for local service. Mid-State Machine Products will finance the improvements within the District. The City will not assume any financial liability within the District. Under the District CEA, the appropriate percentages of new tax revenues will be reinvested into the District to support the cost of capital investment. The design is intended to capture the appropriate percentage of new investment above the current base value of \$1,275,000. For municipal assessed values in excess of this amount from investment made in the first five years of the TIF ending February 20, 2012, the resulting tax revenue will be distributed 50% to Mid-State Machine Products for the first five years following the year in which the investment is made, 40% in years 6 through 10, 30% in years 11 through 15, and 20% in years 16 through 20 following the year in which investment is made through the CEA. In March 2016, the City approved the dissolution of this Tax Increment Financing District.

In November 2009, the City established the **Gilman Place Tax Increment Financing District**. The purpose of the District is to create 35 units of affordable rental housing and to preserve the former Waterville High School building, which is the centerpiece of the Gilman Street neighborhood and a very important landmark in the Waterville community. Resident services will be provided on-site. The tax increment revenues will be used to fund the project's operating costs.

In March 2015, the City established the **Natural Gas Municipal Development and Tax Increment Financing District**. The purpose of the District is to develop new and expanded employment opportunities in the City, encourage and promote economic development that will broaden the City's tax base, improve the general economy of the City, finance the acquisition, installation, design, and construction of public safety projects, expand natural gas infrastructure in the City and to assist businesses with converting to natural gas and/or receiving natural gas services and to fund the City's economic development program. The City has designated approximately 75.16 acres under this municipal development and tax increment financing district. The tax increment revenues generated by the captured value attributable to the taxable property with the district will be retained by the City and used to pay directly (or reimburse the City) for costs of the municipal TIF improvements. Although the City expects to expend all TIF revenues allocated to and retained by the City on the municipal TIF improvements, to the extent the City elects not to expend such TIF revenues on municipal TIF improvements, then such monies will be deposited into the City's general fund. The district and development program shall be in effect for thirty years, commencing with the City's 2015-16 fiscal year and continuing through the City's 2044-2045 fiscal year.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 13 – TAX INCREMENT FINANCING (TIF) DISTRICT – CONTINUED

In May 2016, the City established the **Seton Hospital Redevelopment Municipal Tax Increment Financing District**. The purpose of the District is to develop approximately 100,000 square feet of working space in the former hospital building to create 50 to 60 one and two bedroom apartments, Class A commercial space, and warehouse/storage space. The City will not assume any financial liability within the District. The design is intended to increase the assessed real property taxable value by approximately \$3,000,000. The duration of the District will be 20 years, commencing on July 1, 2017 (FY 2017-2018) and will expire on June 30, 2037 (FY 2036-2037). Under the District CEA, the appropriate percentages of new tax revenues will be reinvested into the District under the following reimbursement schedule: Years 1-3 – 100%, Year 4 – 75%, Years 5-8 – 5% per year decrease, Years 9-11 – 50%, Years 12-20 – 5% per year decrease. All remaining new tax revenues that are captured and not reinvested into the District will be deposited into a TIF Development Plan fund account and used on various municipal projects as outlined in the agreement.

NOTE 14 – CONTINGENT LIABILITIES

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 15 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws require that the City place a final cover on its landfills when waste is no longer accepted and perform certain maintenance and monitoring functions at the post closure 30 years after closure. Closure and post-closure costs are based on landfill capacity used to date. Since the landfill is no longer operational, 100% capacity has been assumed.

The Capital Project Fund – Landfill Closure had been established to provide financial assurance for the closure and post-closure care costs. During the year ended June 30, 2016, the City approved the elimination of this reserve account due to the fact that annual monitoring has indicated the site is contained and the annual costs related to maintenance and monitoring functions are budgeted within the City's Public Works budget.

NOTE 16 - RISK MANAGEMENT – CITY

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors, and omissions, and natural disasters for which the City either carries commercial insurance, or participates in public entity risk pools or is effectively self-insured. Currently, the City participates in a public entity risk pool sponsored by the Maine Municipal Association.

Based on the coverage provided by this pool, as well as coverage provided by commercial insurance purchased, the City is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2016.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The City guarantees a \$1,250,000 loan agreement obtained by the Waterville Opera House Association for the purpose of completing the expansion and renovation of the Waterville Opera House. The Waterville Opera House's most recent financial statements reviewed by an independent accountant are dated August 31, 2015 and reported assets of \$4,421,416 and liabilities of \$448,567 and net assets of \$3,972,849.

City of Waterville, Maine

NOTES to FINANCIAL STATEMENTS

June 30, 2016

NOTE 17 – COMMITMENTS AND CONTINGENCIES – CONTINUED

The City has incurred approximately \$9.3 million of construction in progress as of June 30, 2016. The most significant projects include the Quarry Road Recreation Area, Airport Runway Reconstruction and Pavement Projects which collectively comprise approximately \$6.0 million of the total projects in process at June 30, 2016. The total cost of all projects when completed is expected to be approximately \$9.7 million.

NOTE 18 – NET POSITION AND RESTATEMENT

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restriction imposed by creditors, grantors, or laws or regulation of other governments.

The City's net position invested in capital assets, net of related debt for governmental activities was calculated as follows at June 30, 2016:

Capital assets	\$92,786,153
Accumulated depreciation	(46,581,015)
Bonds payable and capital leases payable	(23,931,149)
Unspent bond proceeds	<u>1,252,821</u>
Total invested in capital assets, net of related debt	<u>\$23,526,810</u>

Property taxes levied during the year are recorded as receivables at the time the levy is made. The receivables collected during the year and in the first 60 days following the end of the fiscal year are recorded as revenues in the City's governmental funds. The City has restated beginning net position in the government-wide financial statements to properly account for property taxes receivable collected in the first 60 days following the end of the City's prior fiscal year. The restatement increased the City's net position as of July 1, 2015 by \$253,576.

Required Supplementary Information - Schedule of Funding Progress**June 30, 2016 (Unaudited)**

Other Postemployment Benefits (OPEB)							Unfunded AAL as a % of Covered Payroll
Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	
2016	January 1, 2014	\$0	\$ 725,027	\$ 725,027	0%	\$ 5,349,667	13.6%
2015	January 1, 2014	\$0	\$ 725,027	\$ 725,027	0%	\$ 5,202,858	13.9%
2014	January 1, 2014	\$0	\$ 725,027	\$ 725,027	0%	\$ 5,065,460	14.3%
2013	January 1, 2011	\$0	\$ 767,786	\$ 767,786	0%	\$ 5,066,198	15.2%
2012	January 1, 2011	\$0	\$ 767,786	\$ 767,786	0%	\$ 4,950,088	15.5%
2011	January 1, 2011	\$0	\$ 767,786	\$ 767,786	0%	\$ 4,834,079	15.9%
2010	January 1, 2009	\$0	\$ 591,128	\$ 591,128	0%	\$ 3,007,951	19.7%
2009	January 1, 2009	\$0	\$ 591,128	\$ 591,128	0%	\$ 3,007,951	19.7%

Required Supplementary Information - Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

June 30, 2016 (Unaudited)

Year Ended	Plan	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Actual Covered Member Payroll	Net Pension Liability as a Percentage of Covered Payroll	Fiduciary Net Position as a Percentage of Total Pension Liability
6/30/2016	PLD Plan	0.379470%	\$1,210,687	\$ 2,759,249	43.88%	88.27%
	SET Plan	0.071311%	\$962,783	\$ 10,181,636	9.46%	81.18%
6/30/2015	PLD Plan	0.438124%	\$674,190	\$ 2,619,833	25.73%	94.10%
	SET Plan	0.068868%	\$744,002	\$ 10,318,500	7.21%	83.91%

Notes:

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The data provided in the schedule is based as of the measurement date of the Maine Public Employees Retirement System PLD Consolidated Plan (PLD Plan) and the State Employee and Teacher Plan's (SET Plan) net pension liability, which is as of the beginning of the City's fiscal year.

There were no changes of benefit terms during the year ended June 30, 2016.

There were no changes in assumptions in the SET Plan. For the PLD Plan, the discount rate changed from 7.25% to 7.125% and the cost of living benefit increase assumption was changed from 3.12% to 2.55%.

Required Supplementary Information - Schedule of Employer Contributions**June 30, 2016 (Unaudited)**

Year Ending	Plan	Statutorily Required Contributions	Actual Employer Contributions	Contribution Excess/(Deficiency)	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
6/30/2016	PLD Plan	\$ 193,147	\$ 193,147	\$ -	\$ 2,759,249	7.00%
	SET Plan	342,103	342,103	-	10,181,636	3.36%
	SET Plan **	85,026	85,026	-	804,410	10.57%
6/30/2015	PLD Plan	\$ 159,810	\$ 159,810	\$ -	2,619,833	6.10%
	SET Plan	273,440	273,440	-	10,318,500	2.65%
	SET Plan **	114,319	114,319	-	846,806	13.50%
6/30/2014	PLD Plan	118,277	118,277	-	2,628,368	4.50%
	SET Plan	271,194	271,194	-	10,233,718	2.65%
	SET Plan **	106,731	106,731	-	790,602	13.50%

Notes:

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

*** The School is required to contribute for those positions that are federally funded.*



INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To the City Council
City of Waterville, Maine
Waterville, Maine

We have audited the financial statements of the City of Waterville, Maine as of and for the year ended June 30, 2016, and our report thereon dated December 27, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedules on pages 47 through 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Nicholson, Michaud & Company

Waterville, Maine
December 27, 2016

Combining Balance Sheet Special Revenue Funds

June 30, 2016

	TIF Projects Fund	Loan Fund	Airport Fund	Police Grants	Fire Dept Grant Fund	Grant Fund	School Funds	Total
ASSETS								
Cash		\$ 14,168						\$ 14,168
Accounts receivable			\$ 32,732			\$ -		32,732
Intergovernmental receivable							\$ 428,429	428,429
Inventory			43,749				20,432	64,181
Interfund loans receivable	\$ 506,712			\$ 8,689	\$ 2,500		99,401	617,302
Total Assets	<u>\$ 506,712</u>	<u>\$ 14,168</u>	<u>\$ 76,481</u>	<u>\$ 8,689</u>	<u>\$ 2,500</u>	<u>\$ -</u>	<u>\$ 548,262</u>	<u>\$ 1,156,812</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Unearned revenues							\$ 13,502	\$ 13,502
Accounts payable	\$ 158,470		\$ 569					159,039
Accrued wages			1,958					1,958
Accrued compensated absences			2,045					2,045
Interfund loans payable		\$ 7,960	146,649			\$ 11,240		165,849
Total Liabilities	<u>158,470</u>	<u>\$ 7,960</u>	<u>151,221</u>			<u>\$ 11,240</u>	<u>13,502</u>	<u>342,393</u>
Fund Balances (Deficit):								
Nonspendable - inventory			43,749				20,432	64,181
Restricted fund balance	348,242	6,208		\$ 8,689	\$ 2,500	(11,240)	514,328	868,727
Unassigned fund balance			(118,489)					(118,489)
Total Fund Balances (Deficit)	<u>348,242</u>	<u>6,208</u>	<u>(74,740)</u>	<u>8,689</u>	<u>2,500</u>	<u>(11,240)</u>	<u>534,760</u>	<u>814,419</u>
Total Liabilities and Fund Balances	<u>\$ 506,712</u>	<u>\$ 14,168</u>	<u>\$ 76,481</u>	<u>\$ 8,689</u>	<u>\$ 2,500</u>	<u>\$ -</u>	<u>\$ 548,262</u>	<u>\$ 1,156,812</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balances **Special Revenue Funds**

Year Ended June 30, 2016

	TIF Projects Fund	Loan Fund	Airport Fund	Police Grants	Fire Dept Grant Fund	Grant Fund	School Funds	Total
Revenues:								
Federal programs				\$ 29,989		\$ 126,606	\$ 2,940,047	\$ 3,096,642
State programs				30,868			308,561	339,429
Local programs						13,300	308,210	321,510
Charges for services			\$ 328,493				194,287	522,780
Unclassified		\$ 362		2,500				2,862
Total Revenues		<u>362</u>	<u>328,493</u>	<u>63,357</u>		<u>139,906</u>	<u>3,751,105</u>	<u>4,283,223</u>
Expenditures:								
Education							2,401,181	2,401,181
Adult education							139,084	139,084
Food services							1,116,577	1,116,577
TIF projects	\$ 735,639							735,639
Cooperation with other entities					143,729			143,729
Unclassified		28,508	428,097	38,696				495,301
Total Expenditures	<u>735,639</u>	<u>28,508</u>	<u>428,097</u>	<u>38,696</u>		<u>143,729</u>	<u>3,656,842</u>	<u>5,031,511</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(735,639)</u>	<u>(28,146)</u>	<u>(99,604)</u>	<u>24,661</u>		<u>(3,823)</u>	<u>94,263</u>	<u>(748,288)</u>
Other Financing Sources:								
Transfers in	1,343,502	25,000	62,845					1,431,347
Transfers out	(486,350)			(28,791)			(140,556)	(655,697)
	<u>857,152</u>	<u>25,000</u>	<u>62,845</u>	<u>(28,791)</u>			<u>(140,556)</u>	<u>775,650</u>
Net Change in Fund Balances	121,513	(3,146)	(36,759)	(4,130)		(3,823)	(46,293)	27,362
Fund Balances (Deficit), Beginning of Year	<u>226,729</u>	<u>9,354</u>	<u>(37,981)</u>	<u>12,819</u>	<u>\$ 2,500</u>	<u>(7,417)</u>	<u>581,053</u>	<u>787,057</u>
Fund Balances (Deficit), End of Year	<u>\$ 348,242</u>	<u>\$ 6,208</u>	<u>\$ (74,740)</u>	<u>\$ 8,689</u>	<u>\$ 2,500</u>	<u>\$ (11,240)</u>	<u>\$ 534,760</u>	<u>\$ 814,419</u>

Combining Balance Sheet Capital Projects

June 30, 2016

ASSETS

Grants receivable	\$ 612,413
Intergovernmental receivable	4,026
Interfund loans receivable	<u>2,549,810</u>

Total Assets	\$ <u>3,166,249</u>
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LIABILITIES AND FUND BALANCES

Liabilities:

Unearned revenue	\$ 6,216
Interfund loans payable	1,033,884
Accounts payable	<u>364,204</u>

Total Liabilities	<u>1,404,304</u>
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Fund Balances:

Restricted	1,504,932
Committed	859,121
Unassigned	<u>(602,108)</u>

Total Fund Balances	<u>1,761,945</u>
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Total Liabilities and Fund Balances	\$ <u>3,166,249</u>
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Combining Statement of Revenues, Expenditures and Changes in Fund Balances**Capital Projects****Year Ended June 30, 2016**

	Beginning Balance	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Ending Balance
Municipal						
Voting Machines/Storage Equipment	\$ 2,566					\$ 2,566
Cemetery Chapel Repairs	2,025					2,025
Parks and Recreation Equipment	31,370			\$ 31,962	\$ 592	-
Fire Dept Equipment	150,000	\$ 96,000		96,000		150,000
Public Works Equipment	940,000			298,904		641,096
Improve First Rangeway Intersection	(29,357)			165,651		(195,008)
Golf Course Irrigation Project	31				(31)	-
Maintenance/Mobile Facility/Washbay	40,250					40,250
Waterfront Projects	20,376			11,758		8,618
Assigned Sources and Uses	147,451	42,603		5,803	7,566	191,817
Airport Runway Design	(26,289)	25,508				(781)
Airport Main Runway Construction	174,343	1,758,571		1,924,956		7,958
Airport Land Easements		58,913		54,301		4,612
Airport Equipment/Pavement Maintenance	19,235			18,948		287
Landfill Closure	96,352				(96,352)	-
Quarry Road Projects	61,733	15,759		8,607		68,885
Waterville Opera House Project	(507)				25,000	24,493
Downtown Sidewalk Repairs	18,477			1,612		16,865
City Hall	7,740			28,734	35,760	14,766
City Hall Roof Repair	125,000			12,223		112,777
Bonded Paving Projects	919,389	124,686		720,967		323,108
Mayflower Hill	(90,747)	30,000				(60,747)
Spring/Water/Main/Front	(36,377)	38,350		440		1,533
Pavement Rehab	357,491			164,661	200,000	392,830
Property Valuation Equilization	210,035			145,944		64,091
Traffic Signal Airport Road	125,000			1,500		123,500
Pool Maintenance	177,232			5,256		171,976
Police Radio Tower				111,256	111,256	-
Downtown Traffic Study				55,607		(55,607)
School Improvement	(329,965)				40,000	(289,965)
Totals	<u>\$ 3,112,854</u>	<u>\$ 2,190,390</u>	<u>\$ -</u>	<u>\$ 3,865,090</u>	<u>\$ 323,791</u>	<u>\$ 1,761,945</u>

**Combining Balance Sheet
Permanent Funds**

June 30, 2016

ASSETS

Cash	\$	351,237
Investments		1,967,601
Interfund loans receivable		66,303
Total Assets	\$	2,385,141

LIABILITIES AND FUND BALANCES

Liabilities:

Interfund loans payable	\$	96,312
Accounts payable		3,751
Total Liabilities		100,063

Fund Balances:

Nonspendable principal		1,310,897
Restricted to charitable or community purposes		974,181
Total Fund Balances		2,285,078

Total Liabilities and Fund Balances	\$	2,385,141
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Combining Statement of Revenues, Expenses and Changes in Fund Balances **Permanent Funds**

Year Ended June 30, 2016

	Fund Balances Beginning of Year		Contributions and Other Income	Investment Income (Loss)	Expenditures	Fund Balances End of Year	
	Nonspendable Principal	Restricted Income				Nonspendable Principal	Restricted Income
City Funds:							
Haines Charity	\$ 100,000	\$ 540,140		\$ 14,133	\$ 26,301	\$ 100,000	\$ 527,972
Frank Champlin Teachers Fund	100,000	336,335		(2,763)	4,363	100,000	329,209
Mildred Pray Ware Fund	5,000	42,318		167	127	5,000	42,358
Violet Smith Fund		1,248		4	3		1,249
Marr Charity		5,267		1,318	22		6,563
Pine Grove Cemetery	1,082,097	137,323	\$ 14,949	(42,104)	52,454	1,082,097	57,714
Boothby Fountain		200					200
"470" Engine Fund (A)	3,800	(916)		23	134	3,800	(1,027)
Mary Warren Fund	10,000	2,684		44	207	10,000	2,521
George Mitchell Fund	10,000	7,410		55	43	10,000	7,422
Total City Funds	\$ 1,310,897	\$ 1,072,009	\$ 14,949	\$ (29,123)	\$ 83,654	\$ 1,310,897	\$ 974,181

Combining Schedule of Changes in Fiduciary Net Position **Private-Purpose Trust Funds - School Funds**

Year Ended June 30, 2016

	Balances Beginning of Year	Additions	Deductions	Balances End of Year
Private Purpose Trust Funds:				
Buford Grant Scholarship	\$ 27,029	\$ 1	\$ 500	\$ 26,530
W. A. Donovan Fund	3,195	(131)	500	2,564
Wentworth Fund	20,208	125		20,333
Flora Harriman Small Fund	94,578	(564)		94,014
Gladys Briggs Walker Fund	13,294	(22)	800	12,472
Tina Thompson Poulin Drama Fund	9,229	(14)		9,215
Rene Plante Scholarship	4,900	28	500	4,428
Myra Stearns	17,712	25		17,737
Faculty Gowns Account	2,894	(76)		2,818
Messalonskee Fish and Game	15,450	(21)	500	14,929
Ron LaPlante Scholarship Fund	14,079	(44)	1,000	13,035
Janice H. & Cynthia V. Scholarship Fund	2,566	(78)		2,488
Pre Vocational Program	18,181	1,509	750	18,940
Carol Shapiro Scholarship	9,781	30		9,811
Bridge Years	29,436	(221)	3,443	25,772
	<u>282,532</u>	<u>547</u>	<u>7,993</u>	<u>275,086</u>
Total Private Purpose Trust Funds	<u>\$ 282,532</u>	<u>\$ 547</u>	<u>\$ 7,993</u>	<u>\$ 275,086</u>